

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
JULY 19, 2011**

SUBJECT

RECOGNITION OF THE CONTRIBUTIONS OF THE ECONOMIC ANALYSIS TASK FORCE PARTICIPANTS AND AGENCIES IN THE DEVELOPMENT OF ECONOMIC ANALYSIS GUIDANCE AND BENEFICIARY PAYS ANALYSIS FOR WATER RECYCLING PROJECTS.

BACKGROUND

While much progress has been made in California to promote water recycling, many obstacles and impediments need to be addressed to increase recycled water usage in the State. One key challenge for water recycling projects is that the financial analysis of such projects may often appear unfavorable, even though there may be total project benefits that outweigh the project's costs. A water recycling project might be economically justified when compared to development of new fresh water supplies, but financially infeasible because the local agency would find purchasing fresh water cheaper. This occurs when project benefits accrue beyond a project sponsor's boundaries, or the institutional framework of water supply development and distribution prevents local agencies from perceiving the true costs of alternative water developments. When evaluating a project, it is important to consider both the monetary and non-monetary costs and benefits of a project. An economic analysis can provide a suitable benefit-cost perspective for considering if a water recycling project is a justifiable expense from a larger perspective.

DISCUSSION

In December 4, 2007, the State Water Resources Control Board (State Water Board) authorized ([Resolution No. 2007-0068](#)) the Division of Financial Assistance (Division) to execute an agreement with the University of California Regents to facilitate an Economic Analysis Task Force (EATF), develop an economic analysis guidance, and conduct a Cost Share evaluation.

In June 2008, the Division executed the agreement for the services of University of California, Davis (UCD) technical experts, Dr. Jay Lund, Professor of Environmental Engineering and Dr. Richard Howitt, Professor and Chair of the Department of Agricultural and Resource Economics (UCD technical team) and the facilitation expertise of UCD Extension, Center for Cooperative Solutions to prepare an Economic Analysis Guidance document and Beneficiary Pays Evaluation of Options report and to facilitate the EATF.

The EATF consists of representatives of the State Water Board, Department of Water Resources, California Department of Public Health, U.S Bureau of Reclamation and the UCD Technical Team.

The work included survey of the water recycling agencies for input, direct consultation with technical consultants performing similar work for their clients, and public posting of the draft guidance document on the State Water Board Website for public input.

The work of the EATF has been completed and the resulting guidance document provides a framework and methodology to conduct the economic analyses of potential water recycling projects and identifies and assesses, and recommends methodologies for allocating costs of water recycling projects on an equitable basis amongst project beneficiaries. The guidance documents may be used as a tool to assist funding agencies and applicants in conducting economic analysis of water recycling projects, and as a policy primer for further discussion on funding strategies.

The final documents include:

- 1) Guidelines for Preparing Economic Analysis for Water Recycling Projects.
- 2) Excel worksheets for Economic Analysis of Water Recycling Projects, Financial Analysis of Water Recycling Projects, and for screening Water Recycling Projects.
- 3) Beneficiary Pays Analysis of Water Recycling Projects.

POLICY ISSUE

None.

FISCAL IMPACT

None.

ENVIRONMENTAL IMPACT

None.

REGIONAL BOARD IMPACT

None.

STAFF RECOMMENDATION

None